

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Fiscal Analyst
Derrick Headd, Fiscal Staff Analyst

DATE: October 17, 2000

RE: PDD's 1999 Industrial Development District Tax Abatement Job Monitoring and Investment Monitoring Reports (Public Act 198)

During the summer recess, the Planning and Development Department (PDD) submitted its 1999 Industrial Development District Tax Abatement Job Monitoring and Investment Monitoring Reports (Public Act 198) to Your Honorable Body. The Fiscal Analysis Division has reviewed the reports and we respectfully submit our analysis for your review.

1999 Job Monitoring Report - Public Act 198

PDD's Job Monitoring Report listed 114 abatements as currently active, issued by the City from the years 1985-1999. The report includes a detailed listing of the projected number of jobs each company projects to retain and create over the duration of the corresponding abatements. The report also includes the total number of employees employed and the total number of employees that are Detroit residents as of December 31, 1999, as reported by the respective companies. Exactly 110 of the 114 abatement recipients listed responded to PDD's employment survey. For the third consecutive year, the response rates to the PDD survey were satisfactory. PDD collected survey data from **96.5%** of the abatement recipients. In contrast, PDD's 1996 Job Monitoring Report only included responses from **54%** of the abatement recipients.

In addition to analyzing the employment data for the 114 abatements listed active by PDD issued through the years 1985-1999, we have included five abatements which were listed as active just last year, **American Axle (90-618), Amerifood (89-637), Stellar Materials (90-372), Lorro (97-418) and Trend Industries (90-576)**. This brings the total abatement listed in our report to 119 abatements. **We recommend that the Council request that PDD report on the status of the five abatements mentioned above.** If these abatements are active, their current data should be added to the PDD report.

Attachment I provides an overall analysis of PDD's 1999 Job Monitoring Report. Our data shows:

- ? The 119 abatement grantees projected to retain 56,170 jobs and projected to create 2,917 jobs. This amounts to 59,087 total projected jobs overall.
- ? According to PDD, 60,868 individuals were actually employed overall in the respective facilities, as of December 31, 1999.
- ? The number of workers actually employed surpasses the overall projected total jobs to be retained and created by 1,781 (3.01%).
- ? There are 28,279 (46.46%) Detroit residents employed in those facilities.
- ? Comparatively, 23,861(42.58%) Detroit residents of the actual jobs were reported in 1998.

In 1994, the State of Michigan Legislature passed legislation, which required written contractual agreements for tax abatements, which include specified remedies for lack of performance by the grantee for the grantor. Our analysis included detailing the employment data between **1985-93** (Attachment II), the years before the State of Michigan required written agreements and **1994-99** (Attachment III), the period after the written requirements. Our data indicated the legislation written agreements have helped to improve the accuracy of the employment promises by the abatement applicants.

In **Attachment II**, the data for the 54 listed active abatement issued from the period **1985-93** indicates that:

- ? The abatement grantees projected to retain 27,421 jobs and projected to create 1,846 jobs.
- ? This equates to 29,267 total projected jobs for these abatements.
- ? As of December 31, 1999, however, the abatement recipients reported that 25,267 individuals were currently employed in these facilities 4,000 (**13.67%**) **below the projected total of employees.**
- ? The total number of Detroit residents employed in these facilities is **11,676 (46.21%).**

The data for the 65 abatements issued during and after the year the written agreements were required, (**Attachment III**) indicates:

- ? The abatement grantees projected to retain 28,749 jobs and projected to create 1,071 jobs. This equates to 29,820 total projected jobs for these abatements.
- ? As of December 31, 1999, 35,601 individuals were employed in these facilities, **5,781 (19.39%) above the projected total of employees.**
- ? The total number of Detroit residents employed in these facilities is 16,603, which is 46.64% of the total number of employees.

The primary factor for why the projected employment figures for the abatements issued from 1994-99 are far more accurate than the employment projections of the listed active abatements of 1985-93 is due to the contractual abatement agreement requirements. **Our data indicates that the businesses that have received abatements after 1994, were influenced by their contractual obligations to project future employment levels more accurately than in prior years.**

As a result, contractual abatement agreements continue to be beneficial to the City. These agreements provide the City clear remedies if a grantee reneges on its contractually based employment promises. Therefore, abatement grantees are now more realistic with their employment forecasts. This provides the City and the Council a more clear and accurate assessment of each tax abatement application. This also enables the Council to vote on an abatement applicant's true merits.

In addition, it should be noted that four abatement recipients did not respond to the PDD survey. They are, **Advance Enameling (86-232), Pepsi-Cola Bottling (89-641), Thorn Apple Valley (Frederick) (92-533) and Thorn Apple Valley (Deli) (92-534).** It should be noted, however, that the four recipients received their abatements prior to when written contractual agreements between the grantor and grantee were required. Despite the fact that **the Council and the City appear to have limited legal recourse with respect to these four entities, we suggest that the Council formally request a response to the PDD survey.** The Council can advise that a lack of a response may place any future financial incentives for their respective entities in jeopardy.

Of the four abatement recipients mentioned above, **Advance Enameling (86-232)**, listed zero as the number of actual employees just last year. We have included the figure from the 1998 Job

Monitoring Report in our report. Our questions for PDD are: **Is Advance Enameling still in business? When does this abatement expire?**

PDD identified fourteen tax abatement grantees with completed projects **that did not meet their contractual obligation of job hiring commitments**. The fourteen are the following:

Certificate Number	Company (Facility)	Proj Jobs Retained	Proj Jobs Created	Actual Jobs as of 12/99	Number below Proj Jobs	Percentage of Proj Jobs
95-054	Continental Baking	281	0	238	43	84.70%
95-186	Detroit Edge Tool	45	0	42	3	93.33%
95-283	Detroit Edge Tool	45	0	42	3	93.33%
97-134	Detroit Edge Tool	63	0	42	21	66.67%
99-310	Detroit Salt	35	21	40	16	71.43%
96-714	Interstate Brands	252	0	238	14	61.34%
97-563	JSP International	21	17	38	4	70.59%
98-673	Lear	527	6	533	55	57.95%
98-334	LeMica	27	29	56	34	40.91%
95-491	Olympic Steel Lafayette	281	0	238	43	84.70%
95-650	Olympic Steel Lafayette	281	0	238	43	84.70%
96-708	Shaw & Slavsky	95	0	60	35	58.95%
97-564	Stylecraft Products	167	29	150	46	80.00%
95-648	Winston - Morrow	47	7	0	54	0.00%

PDD stated the City's written agreements with **Continental Baking, Detroit Edge Tool (Certificate numbers 95-186 & 95-283), Olympic Steel Lafayette and Winston- Morrow** allow the City the right to hold public hearings to seek to revoke or reduce the term of the tax abatements.

The City's agreements with **Detroit Edge Tool (97-134), Detroit Salt, Interstate Brands, JSP International, Lear, LeMica, Shaw & Slavsky and Stylecraft Products** allow the City the right to hold public hearings to seek to charge an amount above the property taxes abated proportional to the hiring shortfalls.

In addition, the agreements allow the tax abatement grantees the right to explain their hiring shortfalls. PDD, however, does not recommend that the City penalize any of the above mentioned companies for various stated reasons, *except* the three **abatements of Detroit Edge Tool and Winston-Morrow**. PDD's rationale for public hearings to modify or revoke the abatements of Detroit Edge Tool is that much of the hiring shortfall is *due primarily to the transfer of 12 jobs to Roseville*. PDD's rationale for the Winston - Morrow public hearing is that the company has gone bankrupt and is currently out of business. Winston – Morrow, is still receiving a tax abatement from the City, even though the City's primary objective for the tax abatement program, job creation and retention, is not being met.

We concur with the recommendations of PDD regarding Detroit Edge Toll and Winston – Morrow, and in accordance with those recommendations, the Fiscal Analysis Division recommends that your Honorable Body hold public hearings to modify or revoke the tax abatements of Detroit Edge Tool and Winston-Morrow. In addition, we recommend that the Council seek the remedies spelled out in the written agreements between the City and the respective companies, Detroit Edge Tool and Winston-Morrow.

Regarding Winston-Morrow, which has gone bankrupt and now has no employees and we assume, is not currently paying property taxes; our recommended remedy is for the Council to recommend to the State Tax Commission to revoke the company's tax abatement.

Detroit Edge Tool, on the other hand, still has employees. Our recommendation for action on the Detroit Edge Tool abatements is twofold:

1. For the Detroit Edge Tool abatements (certificate numbers 95-186 & 95-283), the remedies available under their written agreements are to revoke or reduce the term of the tax abatements. Given that as of December 1999, the company has 42 out of 45 projected employees, we feel that the tax abatement should not be revoked, but instead reduced.

If after Detroit Edge Tool's public hearing the Council believes that their tax abatement should be reduced, **we suggest that the Council recommend to the State Tax Commission that the abatements be reduced 1/3 from 12 years to 8 years.** These abatements have been in effect for 6 years. We feel that the company should be allowed to receive 2 more years of tax abatement given their efforts to meet the employment goals of these abatements (certificate numbers 95-186 & 95-283).

2. For the Detroit Edge Tool abatement (certificate number 97-134), the remedy available under its written agreement is to charge an amount above the property taxes abated proportional to the hiring shortfalls. If the Council is convinced that this abatement should be modified after the company's public hearing, **we suggest that the Council recommend to the State Tax Commission that the abatements be reduced by 33% over the life of the abatement.**

The percentage is determined by dividing the amount of the employment shortfall (21), by the projected number of positions (63), or 33%. One way to effectuate this reduction is to multiply 33% by the debt owed to the City in abated taxes. **We recommend an easier methodology: reduce the term of the Detroit Edge Tool (97-134) abatement by 33% (1/3) from 12 years to 8 years.**

In January 1999, the Fiscal Analysis Division recommended that the Human Rights Department provide the Council with its own an annual job monitoring of Public Act 198 Tax Abatement recipients. The areas the Human Rights Department reviews on an annual basis include, business type and size, number of employees, percentage of minority and female employees, availability or establishment of training programs, labor union presence, site visit results and turnover rates. **In a letter dated November 16, 1998, the Human Rights Department stated it would provide an annual job monitoring report to the Council. We recommend that Your Honorable Body request that the Human Rights Department provide this report for your review.**

1999 Investment Monitoring Report - Public Act 198

PDD's Investment Report Monitoring listed 63 abatements, the abatements issued by the City after the state law of requiring written agreements from the years 1994-1999. Overall, the projected investment for the 63 abatement grantees is \$2,852,100,809. The actual investment as of December 31, 1999 is \$2,036,639,032, which amounts to 71.41% of the projected investment. **Attachment IV** provides an overall analysis of the investment data for the 63 abatements.

PDD's report highlighted eleven abatement grantees that have completed their projects, but have fallen short on their investment commitments. Those abatement grantees are as follows:

Cert. No.	Company	Projected Investment	Actual Investment	Act/Proj Inv%
97-565	Bing Manufacturing	2,036,313	1,088,107	53.44%
97-060	Budd	20,930,000	20,117,000	96.12%
97-641	Daimler Chrysler (McGraw Glass)	119,030,300	105,782,224	88.87%
97-642	Daimler Chrysler	504,534,000	464,940,327	92.15%

	(Jefferson Assembly)			
94-259	Fitzgerald Finishing	2,600,000	2,511,926	96.61%
96-470	General Motors	227,019,000	168,043,678	74.02%
98-674	General Motors (Det/Ham)	137,056,283	125,092,717	91.27%
96-470	JSP International	4,601,000	4,400,000	95.63%
96-338	Piston Packaging	1,905,964	1,350,000	70.83%
95-577	Quality Bakery Products	2,600,000	2,454,000	94.38%
94-195	Superb Manufacturing	1,183,279	852,435	72.04%

The City's written agreements with the abatement grantees above allow the City the right to hold public hearings to seek to revoke or reduce the term of the tax abatements. PDD does not recommend that the City take any action to penalize any of these eleven, noting, as the department did last year, that all but **JSP International** has exceeded their hiring commitments. PDD indicated in its Investment Monitoring report that JSP International remains committed in its hiring goals and is attempting to fill vacant positions. We agree with this position.

Please contact us if Your Honorable Body requires any additional information.

IC:DH

Attachments:

Notes for Attachments I-III
Attachment I
Attachment II
Attachment III
Attachment IV

cc: Kathie Dones-Carson, Research and Analysis Director
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